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AUTHOR	Stiener, Richard C.
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ABSTRACT

This report presents information on an ongoing investigation into Pell Grant Program abuses among parochial yeshiva-operated institutions in the New York City area. The investigation examined 23 yeshivas (Orthodox Jewish schools of higher instruction in Jewish learning) or yeshiva-operated institutions for fraudulent or abusive conditions and subpoenaed all documents of 5 yeshivas, interviewed students and officials, reviewed student files, and did forensic analysis of documents. Some evidence of abuses was found including "ghost students" who never applied for Pell Grants; individuals who never enrolled or attended the yeshivas that used their names; ineligible high school students and individuals whose biographical information was sold to yeshivas by "brokers" for use in obtaining Pell Grants; and use of mail drops other than home locations to receive Pell grant applications. The investigation also found that a purported college offering an Associate of Arts degree with course requirements across several disciplines in fact offered students only English classes and a small complement of Jewish history and culture. This program and others had very high withdrawal rates, making them ineligible to participate in the Pell program. Finally, one institution had falsified eligibility documents for an Israel-based campus. Appendixes contain information on investigation methodology, the Pell Grant Program and a case study. (JB)

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Testimony

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on Investigations
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U.S. Senate

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STUDENT FINANCIAL AID PROGRAMS

Pell Grant Program Abuse

Statement by
Richard C. Stiener, Director
Office of Special Investigations

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U.S. DEPARTMENT OF EDUCATION
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Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to participate in this hearing concerning the Subcommittee's continuing oversight of the Department of Education's Student Financial Assistance Programs. At your request, we investigated to determine if fraudulent activity and serious abuses have occurred within the federal Pell Grant Program, which assists low-income undergraduate students in financing their postsecondary education. In the 1991-92 award year alone, almost $5.8 billion in grants were made to 3.8 million students. Specifically, on the basis of information provided by the Department's Office of Student Financial Assistance, you asked that we investigate alleged fraudulent activity, concerning Pell Grants, within certain not-for-profit parochial schools in the New York City area.

In brief, as recently as June 1993, we testified[1] on participants' abuses of another student aid program--the guaranteed student loan program. Those abuses included false student-loan applications, schools misrepresenting their academic capabilities, lenders making loans to fictitious students, and ineligible students receiving loans. We found these same basic abuses and falsifications in our ongoing investigation of certain yeshivas[2] in the New York City metropolitan area.

The Department of Education identified to us 37 of over 85 yeshivas or yeshiva-operated institutions in the New York City area. It was concerned that the 37 were engaging in potentially abusive misconduct involving the Pell Grant Program. In all 23 institutions investigated thus far, we have found some evidence of the use of false documents to support both the students' Pell Grant applications and the schools' eligibility to participate in the Pell Grant Program. The yeshivas submitted documentation to the Department of Education for (1) "ghost" students--students who never applied for Pell Grants or individuals who never enrolled or attended the yeshivas that used their names; (2) ineligible high school students; (3) individuals whose biographical information was sold to yeshivas by "brokers" for use in obtaining Pell Grants; and (4) misrepresentation of their academic programs and other eligibility criteria. The false documents included Pell Grant applications; supporting documentation for the applications, such as high school diplomas and income verification; academic transcripts and other documentation maintained in students' files;

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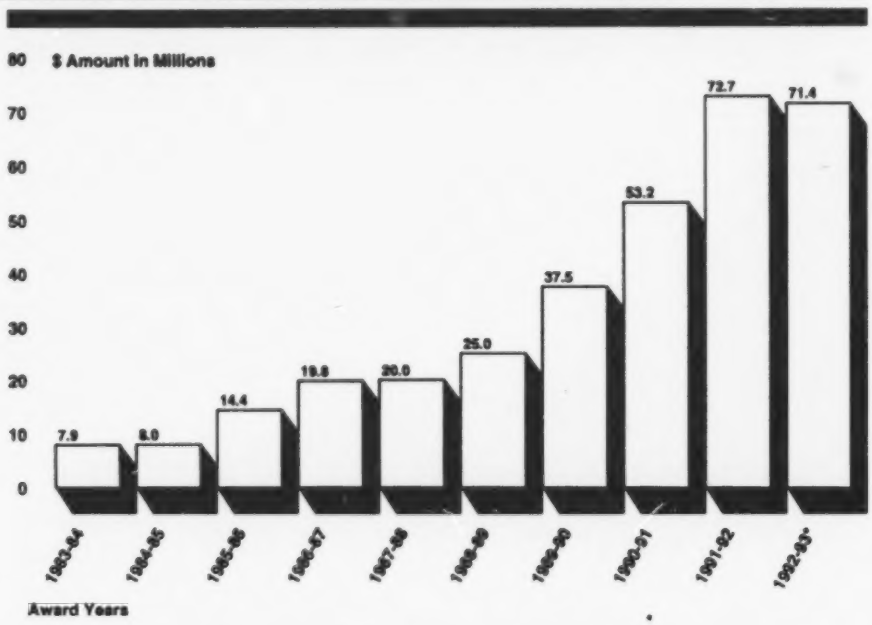
[1]Direct Student Loans: The Department of Education's Implementation of Direct Lending (GAO/T-HRD-93-26, June 10, 1993).

[2]"Yeshiva," as defined in the Random House College Dictionary (Rev. Ed., 1980) is an Orthodox Jewish school of higher instruction in Jewish learning. The schools that we describe as yeshivas in this testimony fit this definition.

and false documents submitted to the Department of Education for institutional eligibility, such as program curricula and falsified Israeli correspondence documenting offshore schools. At least 6 of the 23 schools used brokers to obtain legitimate information from actual individuals and then used the information to obtain Pell Grants from the Department of Education.

Between 1983 and 1993, the 23 institutions that we investigated--21 yeshivas, 1 private college that entered into agreements with off-site yeshiva-operated sublocations, and 1 community college branch campus that was operated as a yeshiva--obtained over $300 million in Pell Grant funds. They obtained about 60 percent of this--over $197 million--within the last 3 years. (See fig. 1.)

Figure 1: 10-Year Growth in Pell Grants to 23 Yeshivas Investigated by GAO (1983-84 Through 1992-93 Award Years)[3]



*The drop in Pell Grants for 1992-93 reflects, in part, termination actions against three of these yeshivas by the Department of Education in 1992. These yeshivas obtained $4.8 million in total for 1991-92.

The attached case study (see app. III), concerning one yeshiva, demonstrates most of the situations of Pell Grant falsifications and abuse that we found. The yeshiva used ghost students, ineligible high school students, false high school diplomas and admissions applications, and apparent mail drops as home addresses

[3]Not all schools received Pell Grants in all years.

on Pell applications. It also submitted unsupported documentation concerning its financial status to obtain Pell Grant Program eligibility. In 1984 and 1987, the school submitted an unaudited financial statement for a different institution to continue its eligibility to process and award Pell Grants. The Department of Education accepted those statements and, on their basis, certified the school as financially responsible to continue in the program. Furthermore, on the basis of a 1988 financial statement that reflected a negative cash position and an over $80,000 liability to the Department itself, the Department again determined the seminary to be financially responsible and continued its eligibility for the Pell Grant Program.

USE OF GHOST STUDENTS

Based upon recipient interviews and examination of school records some yeshivas received Pell Grant awards for individuals who themselves never applied for the grants or never enrolled in or attended the yeshivas that used their names. These yeshivas used individuals' names and biographical information to obtain Pell Grants. The yeshivas also used both false documentation and mail drops to facilitate the grant applications.

Same "Student Recipients"; Different Yeshivas

Pell Grant "recipient" lists for each of the 37 yeshivas identified by the Department of Education for 6 school years (1987-88 through 1992-93) reflect the attendance of many of the same students at different yeshivas in succeeding years. We determined that 1,335 of the Pell Grant recipients attending the 37 yeshivas were listed as having attended 3 different schools consecutively; 133, as having attended 4 schools; and 7, as having attended 5 yeshivas. One recipient had received nine Pell Grants; and four others, eight grants each.

We interviewed 19 of the 140 Pell Grant recipients who were listed as having attended 4 or more yeshivas. Twelve of the 19 stated they did not know they had been awarded Pell Grants at two or more yeshivas that received Pell grants in their names. Two of the 19 stated they had not attended any of the four or more yeshivas that used their names. Of the remaining five, four either could not name the yeshivas they had attended or refused to be interviewed, while the fifth stated he had attended all four cited yeshivas.

An elderly Russian couple we interviewed stated that they had attended two yeshivas in the United States. Yet, three other yeshivas had obtained Pell Grants for them. According to their statements to us, files from the two yeshivas that we examined contained false academic transcripts and other documentation supporting the Pell applications. Three other yeshivas received Pell Grants in the name of a Russian woman who told us that she had attended only one yeshiva. We reviewed student files from one of

the three yeshivas and found false transcripts, financial aid records, and other documents.

Finally, one Pell recipient, who told us that she never attended any of four yeshivas that had obtained Pell Grants in her name, is a daily outpatient at a mental health clinic. She has been under long-term care; and her medical history reflects only a high school education, with no postsecondary education.

False Documentation/Applications Used to Support Ghost Students

On the basis of the interviews with 10 of the 14 recipients' we determined that materials from six yeshivas included false financial aid records, transcripts, admissions applications, and other documents. When we showed one Pell recipient the financial aid forms and other documentation pertaining to her from one yeshiva's files, she stated that her signature had been forged and she had not attended that year. In addition, we submitted certain documents to the Forensic Services Division laboratory of the U.S. Secret Service. They included Pell Grant applications and other supporting documents from student files with handwriting exemplars from three recipients. The laboratory concluded that the signatures on 14 of the 30 analyzed documents were not those of the recipients.

The Department of Education requires that participating institutions request a Financial Aid Transcript for previously attended postsecondary schools to help ensure, among other things, that an applicant is not receiving more than one Pell Grant in an award year. Thus a student's file at a school should contain a copy of transcripts that reflect the prior schools attended and any financial aid received. However, the records we examined from eight yeshivas showed that in most cases admissions applications were false by not accurately reflecting the previous postsecondary schools for which the students obtained Pell Grants. Although the Pell recipients had been awarded grants at four or more yeshivas, the admissions applications at each yeshiva reflected that the students had not attended any other postsecondary schools.

At two other yeshivas, the reported high schools of attendance and dates of graduation on the admissions applications for some Pell Grant recipients differed from yeshiva to yeshiva. In one instance, the diploma copy in the student file was from a different high school than that listed on the application to which it was attached.

Use of Mail Drops as Home Addresses

Some yeshivas used mail drops--or locations other than actual home addresses--to receive the Pell Grant applications. We identified 63 Pell Grant recipients for 5 yeshivas who had listed the home address on their applications as that of an all-boys elementary

school. However, not only were the Pell recipients at this address supposedly of postsecondary age, many were women. On two occasions, we attempted to interview the administrator of the elementary school to determine if anyone lived there and why the address was listed as a home address on 63 Pell Grant applications. On both occasions, he refused to be interviewed. Using a home address from a previous Pell Grant application, we located and interviewed one of the purported students at his apartment. He stated that he had lived and received mail at the apartment address for the previous few years and had not received mail at any other address. He too refused to be further interviewed.

We also determined that the home address of a yeshiva administrator for one yeshiva was listed on 17 Pell Grant applications for 2 yeshivas, including his own. In another instance, the location and mailing address of 1 yeshiva was listed as the home address for 25 Pell Grant recipients at 8 other yeshivas. Yet another yeshiva rented a post office box that was then listed as the home address for over 370 Pell Grant recipients at that school.

USE OF INELIGIBLE HIGH SCHOOL STUDENTS

Although high school students are not eligible to receive Pell Grants, four yeshivas certified postsecondary yeshiva attendance by Pell "applicants" who were high school students. For example, one yeshiva that we examined had at least 30 high school students that received Pell Grants. We found high school diplomas in the files of two of the four yeshivas to support the eligibility of the Pell Grant recipients who were still in high school. In addition, the U.S. Department of Agriculture's Free School Lunch records showed that some of the high school students listed as Pell Grant recipients were receiving free school lunches, which are unavailable to high school graduates. New York State welfare department records also identified some of these Pell recipients as enrolled in high school.

The Department of Education determined that some of the Pell recipients had also been certified to the local school district as being high school students eligible to ride on district school buses and receive district textbooks and library privileges. For example, the administrator for a yeshiva who was also an official for the high school located at the yeshiva, submitted both false high school diplomas and false yeshiva admissions applications to the Department of Education during a Pell Grant Program review. As high school administrator and reviewing official, he had signed school lunch program applications, letters to the welfare department, and Social Service forms attesting that some of the same students were enrolled in high school during the same time periods when they were receiving Pell Grants and were certified as high school graduates. The mother of one Pell recipient from this yeshiva told us that, during the same time period that the school received a Pell Grant in her daughter's name, her daughter had been

enrolled in a high school in a county different from that reflected in the yeshiva's supporting Pell Grant documentation.

A second yeshiva's files contained copies of diplomas made from a single original document. We obtained copies of what appeared to be seven false high school diplomas from the yeshiva's student files that were used to support the Pell eligibility of its students. We submitted these to the Forensic Services Division laboratory of the U.S. Secret Service for analysis. The laboratory confirmed that the diplomas had been created from the same original document, not photocopied from different individual diplomas. Additionally, local welfare department records for two of the seven Pell Grant recipients contained letters from administrators from two other area high schools. The letters reflected that the recipients were enrolled in high school up to 2 years after the dates cited on high school diplomas.

Pell Grant recipients at a third yeshiva were also listed in the records of the Agriculture Department's Free Lunch Program as high school students receiving free school lunches.

An administrator for a fourth yeshiva admitted enrolling high school students and obtaining Pell Grants for them but claimed they were eligible under the Ability to Benefits examination. However, the use of Ability to Benefits examinations does not apply in this situation because federal regulations prohibit high school students from obtaining Pell Grants. This yeshiva has since been fined $87,000 by the Secretary of Education for this misconduct.

PELL GRANT BROKERS

We determined that brokers--individuals who recruit student financial aid applicants and applicant information--are involved in defrauding the Pell Grant Program. One brokers' student files that we examined contained false employment and income verification documents that were the basis for Pell Grant awards. Another broker offered money for information to be used on applications for ghost students. A third broker offered payments of money by the schools to induce individuals to apply for Pell Grants and enroll in ineligible programs.

We reviewed records that the Immigration and Naturalization Service had seized from an individual who brokered students and students' biographical information for at least six of the yeshivas. This broker was an immigration processor who helped recent immigrants obtain resident alien status. While processing them, he had the immigrants sign blank Pell Grant applications and related documentation. His records indicated that, in some instances, he provided several hundred dollars to the immigrants when the Pell Grants were awarded. The broker's files indicate that he secured Pell Grants for 120 purported students, totaling $352,639 for the 1990-91, 1991-92, and 1992-93 school years.

Some of the broker's student files contained false letters of employment or false W-2s to verify employer and income amounts for Pell Grant recipients on their applications. We interviewed nine employers cited on W-2s and in letters found in the broker's files or at the yeshivas where the broker had placed the students. The employers told us that some of the Pell Grant recipients had never worked for them and were unknown to them. They also stated that in some instances although the Pell Grant recipients had worked for them at one time, the recipients were not employed at the time for which a false letter was used to establish Pell Grant eligibility. In other cases, employers stated that although the Pell Grant recipients had worked for them, the letters were unauthorized and they were unaware of who wrote them. Furthermore, on the basis of the employers' statements, the annual incomes cited in the letters were false.

When reviewing student files from this broker involving three yeshivas, we also determined that representations made on federal income tax verification worksheets[4] were false. We interviewed the broker's secretary and only employee. She told us that, at the broker's instruction, she had typed the letters of employment/income verification and that she and the broker had signed the letters without the employers' consent or authorization. Further, she filled out blank Pell Grant applications, some were signed and some were not, from files that the broker had provided her. Additionally, she stated that she had seen checks[5] payable to the Pell Grant applicants and that these individuals had picked up the checks from the broker.

The broker was indicted for falsifying immigration documents but fled the United States before his trial. Prior to the broker's flight, his counsel expressed the broker's willingness to cooperate by providing information about Pell Grant fraud by the yeshivas and other brokers.

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[4]U.S. Department of Education Federal Student Aid Programs Income Verification Worksheet, OMB Form No. 1840-0132.

[5]We obtained some of the original checks from the broker's files that had been seized by the Immigration and Naturalization Service. To assist in our investigation, the Subcommittee subpoenaed the involved yeshiva's records. Subsequently, a fire occurred at the yeshiva, and the yeshiva's officials stated that the subpoenaed records had been destroyed. However, Fire Department officials, during their inspection of the fire scene, saw no evidence that any records near the site of the fire.

We identified a second broker[6] in a closed-case file from a federal law enforcement agency. In consensually monitored conversations, the broker offered an informant several hundred dollars for Pell Grant applications filled out for ghost students. Department of Education records disclosed that a Pell Grant was later awarded in the name of an individual whose biographical information had been provided to the broker by the informant. A yeshiva received Pell Grants to offset the recipient's alleged academic costs and maintained an academic record for the purported student. The record listed classes, grades, and other enrollment information. However, when we interviewed the purported student, she told us that she had never attended or heard of the school and had never applied for a Pell Grant.

Our concern that this school might be using brokers and dealing in fraudulent Pell Grants was heightened during an unannounced visit to an off-site office for this yeshiva. We observed yeshiva personnel working with financial aid applications, one of which was a blank Pell Grant application that bore the signature of an alleged applicant. A person working in the office identified herself as the yeshiva's bursar. We also observed file cabinets with labels that related to Pell Grant documents and open boxes on the floor filled with what appeared to be student files. On a subsequent visit, the bursar acknowledged to us that blank, signed Pell Grant applications were being filled out but refused to answer questions concerning this activity.

We identified a third broker who recruited elderly Russian immigrants for at least two yeshivas. According to two Russian immigrants, this broker provided payments of $500 and $600 per year to people for enrolling in English-as-a-Second-Language classes. Although this broker denied acting as a broker or recruiter for the schools, he acknowledged setting up a school location for one of the schools and referring Russian immigrants there. He also acknowledged that the school paid stipends to students of $600 per year. According to one of the Russian immigrants who we interviewed about yeshivas, the only reason the immigrants enrolled was to obtain the cash payments.

INELIGIBLE PROGRAMS AND FALSIFIED ELIGIBILITY CRITERION

Ineligible Programs

We reviewed approximately 50 applications for Pell Grants for students of a 4-year private college. We learned that the college had entered into an agreement with eight yeshivas to provide a 3-year Associate of Arts degree under the auspices of the college.

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[6]This broker provided Pell Grant recipients' biographical information to one yeshiva that also utilized the services of the broker who fled the country.

These 8 off-site schools maintained, in total, 44 locations in New York City to provide instruction to a largely immigrant population. A college official explained that this population could not read or write English; therefore, yeshiva personnel had filled out the Pell Grant applications for the students.

According to the college's course catalog, a program for an Associate of Arts degree requires 64 credits with a minimum of 48 credits in liberal arts courses. Further, the program syllabi provided by the yeshivas to the college indicated that eight English courses were to be taken in the first two semesters. These were to be followed by other courses, including philosophy, political science, art history, human biology, and music. However, according to the seven students we interviewed who were participating in the college's off-site programs, they were primarily provided with English classes and a small complement of Jewish history and culture.

The programs began in 1989; however, the first 3-year class had an 83-percent withdrawal rate. This withdrawal rate--and the determination that the off-site programs differed substantially from the home campus programs--caused the Department of Education to determine the off-site programs as ineligible to participate in Pell. Additionally, the New York State Education Department found that several resumés for teachers of the off-site programs had listed degrees from schools that did not offer such degrees. We also determined that 14 Pell recipients from the college's off-site programs had received Pell Grants in their names for at least 3 other yeshivas. However, when we interviewed 4 of these 14 students, they stated that they had not attended the college's yeshiva-operated off-site programs. Yet the college's off-site programs made them ghost students by maintaining student files for them that included academic transcripts and financial aid applications.

In addition, we noted that a yeshiva-operated branch of an area community college had a similarly high withdrawal rate. Over 3,000 students had withdrawn from the branch after receiving Pell Grants for 1 to 3 years and before obtaining a degree. According to our review of Department of Education records, over 90 of the 140 applicants who received Pell Grants at 4 or more yeshivas obtained Pell Grants at the community college program. Eight of the 13 interviewed Pell Grant recipients from the program told us that they had not attended the program. One of the eight stated that the signatures on the documents were forgeries; another stated that she had filled out the forms but had never attended. Of the remaining five we interviewed, only one stated she had attended the program, while two refused to answer questions, and two could not remember the names of schools they had attended.

False Eligibility Criterion

Four of the 23 investigated yeshivas reported to the U.S. Department of Education that they maintained campuses in Israel. To satisfy an eligibility criterion, one yeshiva submitted to the Department of Education a purported letter from the Israeli Department Director of the Ministry of Religious Affairs. The U.S. Department of Education, in part, used the certification letter to determine the school's Pell Grant eligibility for an off-shore site in Israel. However, on reviewing the letter, the Director told the U.S. Department of Education that his signature had been forged. The Department's records show that between the 1988-89 and the 1992-93 school years, the yeshiva was authorized to obtain $1,640,738 in Pell Grants for its Israeli-based students. The Department of Education has since taken an administrative action against the school, in part on the basis of the forged letter. A decision on the Department's action is pending before a Department Administrative Law Judge.

The Israeli Director also raised doubts about another school's certification. He stated that the signature on another certification, although appearing genuine, was that of an official who may not have been in the signatory's position on the date of the letter. Israeli Knennest (Parliament) records reflect that the letter's signer was not in that position on the letter's date. The Israeli Embassy in Washington, D.C., has since verified in writing to the U.S. Department of Education that this individual was not in the position on the letter's date. We did not investigate the Israeli certifications of the two remaining schools.

CONCLUSION

Schools participating in the Pell Grant Program are required to meet certain criteria, including academic accreditation and financial certification, and sign an agreement acknowledging that with the Department of Education. However, according to our September 1991[7] report on student financial aid, the Department has failed to adequately screen or review schools for participation eligibility. Nothing we have seen in our current investigation would indicate that this has changed.

One of the first lines of defense in dealing with problems in schools participating in the Pell Grant Program, or any student aid program, is to have strong "gatekeeping" procedures for ensuring that only schools that are able to provide the education they advertise can participate, and can continue to participate, in the programs. Such procedures include licensing, accreditation, eligibility, and certification requirements for the schools.

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[7] Student Financial Aid: Education Can Do More to Screen Schools Before Students Receive Aid (GAO/HRD-91-145, Sept. 27, 1991).

Some of these procedures were included in the 1992 Amendments of the Higher Education Act, although they were not in effect when the Department approved the schools that were included in our investigation. For example, the amendments provide that an institution will lose its eligibility if more than 85 percent of its revenues come from federal student aid sources, such as Pell Grants and guaranteed student loans. Further, provisions in the 1992 amendments call for strengthening relationships between the Department, states, and accrediting organizations. Part H of the Higher Education Act, among other things, defines a minimum set of review standards that accrediting organizations must follow. The Department and each state are to enter into an agreement to conduct or coordinate the review of institutions in the state that are, or want to be, eligible to participate in federal student aid programs. These regular reviews are a step toward eliminating the possibility that the fraudulent and abusive practices we found in our investigation will continue or occur at all. Indeed, we believe the 1992 amendments are a good start for strengthening the Department's approval of schools. However, the Department must begin to demonstrate much needed leadership in marshalling its own resources and enlisting the support of the states to protect students and the federal investment in student financial assistance programs.

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This concludes our prepared statement. We would be pleased to answer any questions you may have.

METHODOLOGY

In response to our request for information on the most serious problems of potential abuse in the Pell Grant Program, the Department of Education's Office of Student Financial Assistance for Region II in New York City identified 37 postsecondary parochial schools, some of which it was then reviewing. These schools were yeshivas or institutions whose sublocations were operated by yeshivas[8] that provide both religious and secular instruction. We investigated 23 of the 37 schools on the basis of the information provided to us. In each of the 23 schools examined, we investigated to determine if fraudulent or abusive conditions existed. The depth of our investigation ranged from subpoenaing all the documents of five yeshivas to interviewing students, reviewing student files and forensic analysis of documents. We did not attempt to uncover every fraudulent or abusive activity that may have occurred in a particular school. Nor did we attempt to establish that the same conditions existed in every school. Our investigation of these 23 schools is continuing. To date, the investigation has focused on the misconduct of the schools and not the conduct of their students.

We began our ongoing investigation in February 1992. We interviewed officials or reviewed documents from the U.S. Department of Education's Office of Inspector General (OIG) and Office of Student Financial Assistance, coordinating our investigative efforts with this second office in New York City. We also interviewed officials and reviewed documents from the U.S. Department of Agriculture; Immigration and Naturalization Service; U.S. Attorney's Office for the Southern District of New York; Rockland County District Attorney's Office, New York; New York State's Department of Social Services, Office of State Comptroller, and Education Department; subject institutions, various school personnel, and students; and others.

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[8]We investigated eight off-site locations of a private college located in Long Island, New York, and one branch location of a community college located in the New York City metropolitan area.

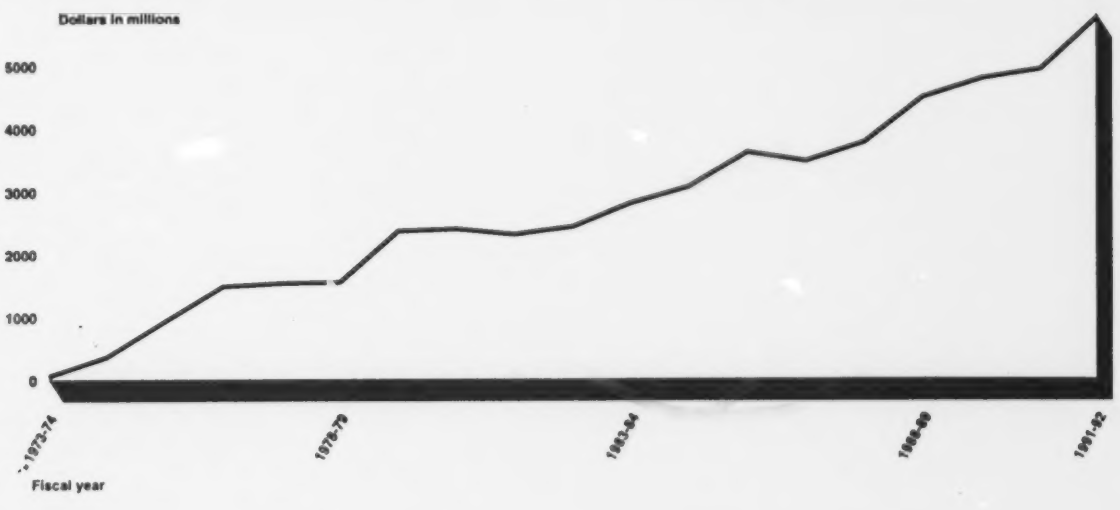
BACKGROUND OF PELL GRANTS

THE PELL GRANT PROGRAM

Pell Grants (formerly Basic Educational Opportunity Grants) are to help undergraduate students from low-income families finance their postsecondary education. Authorized in 1972, the first grants were awarded to full-time freshmen students in fiscal year 1973.[1] The maximum Pell Grant was $2,400 for the 1991-92 award year.[2] The grants are fully funded by the federal government. These are awarded on the basis of a student's cost to attend a school, including tuition and fees; room and board; books; supplies; transportation; miscellaneous expenses; and, in some cases, child or dependent care and expenses related to disability.

For award years 1973-74 through 1991-92, almost 46 million students received Pell Grants totaling $52 billion. With few exceptions, the program has experienced steady growth since the first grants were made in 1973. (See fig. II.1.)

Figure II.1: Growth in Pell Grant Awards (Award Years 1973-74 Through 1991-92)



[1]The Pell Grant Program was authorized and incorporated into the Higher Education Act by the Higher Education Amendments of 1972.

[2]An award year is a 1-year period of time from July 1 of one year to June 30 of the next. Award year 1991-92 is the period July 1, 1991, through June 30, 1992.

ELIGIBILITY FOR PELL GRANT RECIPIENTS

Department-approved schools determine students' eligibility, process, and award the grants on the government's behalf. Grants are awarded on the basis of an eligible student's cost of attendance at the particular school, including institutional and noninstitutional charges. According to the Department of Education, a student's financial need is based on the student's financial condition, as determined from information reported on the Pell application and supporting documentation submitted to the school. Thus, it is of critical importance that the financial information certified on the application be truthful and correct.

In the 1991-92 award year, $5.79 billion in grants were made to almost 3.8 million students. The average Pell Grant was $1,530 during the 1991-92 award year, and about a third of all undergraduates received a Pell Grant that year. (See fig. II.1.)

In addition, to be eligible for a Pell Grant, undergraduate students must be U.S. citizens or eligible noncitizens; not be enrolled in a secondary school; have a high school diploma, have a GED (general educational development) certificate, or demonstrate an ability to benefit;[3] be enrolled at least half time; make satisfactory academic progress and not be in default on a federal guaranteed or Perkins student loan;[4] and sign a statement that they will use the proceeds only for educational purposes. Students' eligibility generally continues as long as the student maintains satisfactory scholastic progress. Students must apply annually for each Pell Grant.

Numerous schools participate in the Pell Grant Program--6,855 schools in the 1991-92 award year, most of which were 2-year public schools. Participating schools must meet certain eligibility criteria, including academic accreditation and financial certification, and sign an agreement with the Department of Education. However, according to our September 1991 report (GAO/HRD-91-145), the Department's OIG, and a federal review team, the Department has failed to adequately screen or review schools for participation eligibility.

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[3]Students lacking a high school diploma may receive a Pell Grant if they have the ability to benefit from the education program in which enrolled. This may require applicants to pass a test to measure their aptitude to successfully complete the program.

[4]Title IV of the Higher Education Act, as amended, provides for several kinds of guaranteed loans, including Stafford loans, and Perkins loans, which are low-interest loans made by schools with most funds coming from the government.

In our September 1991 report, we identified six requirements that some states were using in varying degrees to license schools that could be applied to strengthening the Department's eligibility and certification process. For example, some states were using outcome measures such as student withdrawal rates and school completion rates. Other states were requiring schools' financial statements to be independently audited, rather than allow schools to certify their own statements as the government required.

Some of these requirements were included in the Higher Education Amendments of 1992, although they were not in effect when the Department approved the schools that were included in the investigation discussed in this testimony. As an example, the amendments provide that an institution will lose its eligibility if more than 85 percent of its revenues come from federal student aid sources, such as Pell Grants and guaranteed student loans.

Also, provisions in the 1992 amendments call for strengthening relationships between the Department, the states, and the accrediting organizations. Part H of the Higher Education Act, among other things, defines a minimum set of review standards that accrediting organizations must follow. The Department and each state are to enter into an agreement to conduct or coordinate the review of institutions in the state that are, or want to be, eligible to participate in federal student aid programs. The Department is to reimburse the states for their expenses in conducting these reviews, but the reimbursement is dependant on federal funds being appropriated. We believe the 1992 amendments are a good start for strengthening the Department's approval of schools.

PELL GRANT PARTICIPATION BY SCHOOLS

Of the approximately 3.8 million Pell Grant recipients attending the 6,855 participating schools in the 1991-92 award year, almost 50 percent attended schools offering at least 4 years of study. About 15 percent attended schools with less than 2 years of instruction--mostly proprietary schools offering vocational courses of study. Most Pell Grant funds went to students attending public schools (59 percent in fiscal year 1990); and students attending proprietary schools received 22 percent of Pell Grant funds.

A school's requirements to participate in the Pell Grant Program include the school's accreditation by a Department-recognized accrediting agency and certification by the Department of the school's administrative and financial responsibility. Most schools that offer a degree or certificate program of at least 1 year's duration are eligible. These include private and public 2- and 4-year degree-granting schools, proprietary (for profit) schools located in and authorized by a state, and postsecondary vocational

institutions that have provided postsecondary education for at least 2 years.

DEPARTMENT OF EDUCATION'S SCHOOL APPROVAL PROCESS

One of the first lines of defense in dealing with problems in schools participating in the Pell Grant Program, or any student aid program, is to have strong "gatekeeping" procedures--for ensuring that only schools that are able to provide the education they advertise can participate, and can continue to participate, in the programs. The Higher Education Act, as amended, specifies that for schools to participate in the Pell Grant Program, they must be (1) licensed by a state agency, (2) accredited by an agency recognized by the Secretary of Education, and (3) determined eligible and certified by the Department.

The Department relies heavily on the work of state licensing and private accrediting agencies in determining which schools can participate in federal student aid programs. State licensing plays a broadly defined role as a consumer protection tool that may include overseeing the content of schools' advertising and maintenance of student records. Accrediting agencies--or private organizations recognized as authorities on curriculum and other education requirements--are to ensure the quality of education offered by the schools. The Department's eligibility determination includes ensuring that schools are properly licensed and accredited; the certification process includes evaluating a school's financial responsibility and administrative capabilities.

In September 1991, we reported (GAO/HRD-91-145) that the Department lacked adequate controls to prevent both financially weak schools and schools that did not provide promised training from participating in federal student aid programs. The Department's procedures for approving schools failed to screen schools adequately, in part, because of weaknesses in its procedures for determining schools' eligibility and for certifying schools. Its OIG and a joint Office of Management and Budget and Department of Education review team have also reported problems with the Department's gatekeeping procedures for approving schools.

The joint review team reported that the Department was unable to initiate and conduct school eligibility renewals that are required to be done every 4 years. In 1990 alone, the Department failed to conduct about 3,500 required eligibility renewal reviews, and in many cases a school's eligibility has not been reviewed for more than 15 years. The review team attributed this failure to the Department's limited staff resources.

BETH ROCHEL SEMINARY--A CASE STUDY

According to its own representation and the records of the Department of Education, the Beth Rochel Seminary is a postsecondary institution located at 145 Saddle River Road, Monsey, New York. Our investigation determined that it is collocated with the Beth Rochel School for Girls, an elementary and secondary school for girls in grades 1 through 12. The seminary obtained Pell Grant funds of $1,042,986 for the 1990-91 school year and $639,100 for the 1991-92 school year. In the 10 years between 1983 and 1992, Beth Rochel Seminary obtained $4,800,237 in total Pell Grant funds to provide a mentoring (independent study) course of instruction. We investigated Beth Rochel Seminary to determine if it had intentionally defrauded the U.S. Department of Education of Pell Grant funds and had made false representations to the Department during a Pell Grant Program review. We determined that the yeshiva had (1) used ghost students and submitted false Pell Grant applications and other documentation for them, (2) used ineligible high school students as grant recipients and used false high school diplomas and admissions applications to support their eligibility, and (3) submitted false eligibility criteria by submitting improper financial statements to the Department of Education. In September 1992, because of the yeshiva's fraudulent actions, the Department permanently terminated the yeshiva from participating in Title IV programs. That termination and an additional fine are still pending.

DEPARTMENT OF EDUCATION CONCERNS

Representatives of the U.S. Department of Education, Office of Student Financial Aid (OSFA), provided us a list of Pell Grant recipients they questioned after their 1992 program review at Beth Rochel Seminary. They believed that these grant recipients were enrolled in high school when they obtained Pell Grants. Obtaining Pell Grants while enrolled in secondary schools, or when below the age of compulsory student attendance under state law where the postsecondary school is located, is prohibited.[5]

OSFA program reviewers compared high school busing and library records from a local school district with the Pell Grant disbursement records for the Beth Rochel Seminary for the 1990-91 and 1991-92 award years. Through this comparison, OSFA identified 31 Pell Grant recipients believed to be ineligible for the Pell Grants obtained in their names. OSFA identified another nine recipients believed to be ineligible because they had not yet reached New York's minimum required age for postsecondary

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[5]20 U.S.C. § 1091(a), 34 C.F.R. § 668.7(a)(2) (1992), and § 668.8(1)(a)(iii) (1992).

education. Additionally, the seminary's Administrator submitted to OSFA during the program review what appeared to OSFA to be false high school diplomas. These diplomas were to support the Administrator's assertion to the program reviewers that these Pell Grant recipients were high school graduates and therefore eligible. According to the Department of Education, these diplomas had been signed by various school administrators, including the seminary's.

FRAUDULENT ACTIONS AND FALSE REPRESENTATIONS

Use of Ghost Students

We determined that Beth Rochel Seminary used at least 9 ghost students to obtain Pell Grants. Nine of the 18 seminary students we interviewed told us they had never applied, enrolled or attended Beth Rochel Seminary. However, the seminary obtained Pell Grants in their names and maintained student files that contained false transcripts and financial aid documents.

Five of these were also reported to have received Pell Grants for attendance at 3 or more other yeshivas. We submitted student files from the seminary for two of the five students for analysis by the Forensic Services Division laboratory of the U.S. Secret Service. The laboratory concluded that these two grant recipients did not sign 10 of the 12 documents found in the files. In addition, none of the applications for admission to the seminary for the five students reflected attendance at other yeshivas.

Our review of cancelled checks subpoenaed from the seminary's bank accounts revealed checks issued in the names of many Pell Grant recipients for the 1990-91 and 1991-92 school years. Those checks were drawn on the Beth Rochel School for Girls (high school) account. We interviewed six[6] of these Pell Grant recipients. Four stated that they had never attended Beth Rochel Seminary. When shown the checks, two of the six stated that they had never seen or received them and that the endorsements on the backs were not their signatures; a third stated that she had never been paid to attend a postsecondary school. Two recipients stated that although they had attended a yeshiva program, they could not recall its name and had never heard of Beth Rochel Seminary. One stated that she had never seen or received a check and that the endorsement on the back was not hers. The sixth acknowledged the endorsement as hers but could not recall receiving the check.

[6]One of the five Pell Grant recipients interviewed had a daughter who was also a recipient for Beth Rochel, and she spoke on her daughter's behalf--totaling six recipients.

Use of Ineligible High School Students to Obtain Pell Grants

Beth Rochel Seminary made false statements to the Department of Education by enrolling at least nine high school students to obtain Pell Grants. The yeshiva also provided false documents such as false diplomas, admissions applications, and academic transcripts concerning these high school students to OSFA during its recent Pell Grant Program review to support the students' and the yeshiva's eligibility for Pell.

We accompanied representatives of the Department of Agriculture, Food and Nutrition Service, on a program review of Beth Rochel School for Girls--an elementary, junior high, and high school--located at the same address as Beth Rochel Seminary. We were met by an individual who identified himself to us as both the principal and administrator of the high school. Using OSFA's list of Pell Grant recipients who received high school busing, we identified five whom the Administrator had represented as being in high school, during the same period, to obtain free school lunches/milk for them, paid for by the U.S. Department of Agriculture. The Administrator's signature as reviewing official appears on all the free school lunch/milk applications. The five Pell Grant recipients were all students in the tenth or eleventh grades at Beth Rochel School for Girls in the 1990-91 and 1991-92 school years when Pell Grants were disbursed in their names to Beth Rochel Seminary.

We also reviewed welfare case files of the New York State, Department of Social Services, Rockland County Office, concerning families of the five purported seminary students. Four of the five case files contained either letters on the Beth Rochel School for Girls letterhead or School-Age Children verification forms submitted to the Rockland County Department of Social Services. These documents--used to help recertify the families' eligibility for welfare, food stamps, Medicaid, and other social services--asserted that the four Pell Grant recipients were enrolled as full-time high school students at Beth Rochel School for Girls. The seminary's administrator, as high school administrator, had signed and certified most of these documents. These four recipients were also students in the eleventh or twelfth grade when they received Pell Grants.

We interviewed the mother of yet another Pell Grant recipient who stated that her daughter was still in high school during the time period when a Pell Grant was issued in the daughter's name. According to the mother, the daughter did not enroll in a postsecondary program until the 1992-93 school year. However, the seminary obtained a grant for the daughter in the 1991-92 school year.

False High School Diplomas and Admissions Applications

At least three of seven high school diplomas that the Administrator submitted to OSFA during a Pell Grant Program review are false. The diplomas were issued in the names of three students who had not yet graduated from high school when the seminary represented that they had graduated and obtained Pell Grants in their names. While the diplomas themselves were not dated, they were attached to admissions applications for Beth Rochel Seminary that contained the Beth Rochel High School graduation dates. We also found four false admissions applications in the files of the students at the seminary for which no diploma copies were attached.

We reviewed three additional false admissions applications that listed false graduation dates and high schools attended. For example, one Pell Grant recipient we interviewed who disclaimed attending the seminary provided a sworn statement that she had attended United Talmudic Academy high school in New York. However, the admissions application for the seminary listed Beth Jacob, located in Israel, as the high school of attendance. Additionally, the mother of another recipient stated that the admissions application for the seminary was false. It cited her daughter as enrolled in a different high school than the one she had listed and included a false graduation date.

During a termination hearing held by the Department in 1993, seminary officials claimed that the diplomas presented to the Department of Education were for a 4-year Hebrew high school program consisting exclusively of religious study for students between 12 and 16 years old. They further claimed that the ultraorthodox Jewish community considers this course of instruction to be the completion of high school; thus they claimed that the diplomas presented to the Department of Education were not false. However, under New York State law the diplomas are invalid and have no legal status as evidence of graduation from secondary school. The law requires that secondary schools provide a course of instruction determined to be equivalent to that provided by public schools. A course of instruction that is strictly religious would not fit New York's definition of a secondary school education and therefore does not meet federal regulations governing secondary schools.[7]

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[7]20 U.S.C. § 1141(d), 20 U.S.C. § 2891 (21), New York State Elementary and Secondary Education School Program Regulations. Part 100.2(c), 100.5(a)(2).

Use of Mail Drops as Home Addresses on Pell Grant Applications

Beth Rochel Seminary also used mail drops--or locations other than actual home addresses--on Pell Grant applications. The Administrator's home address was cited on 17 Pell Grant applications as the home address of the applicants. The applications were for Pell Grant recipients at Beth Rochel Seminary and Beth Medrash Eeyon Hatalmud (located one block from the seminary), both of which we included in our investigation. The seminary obtained 6 Pell Grants through this address. Further, the grant applications of 7 additional Beth Rochel Seminary students, as well as 18 other Pell Grant recipients at 7 other yeshivas, cited B'nos Jerusalem Seminary, another of the yeshivas that we investigated, as the applicants' home address.

Insupportable Eligibility Criterion

Financial Statements Submitted to the Department of Education

Postsecondary institutions must meet certain eligibility criteria, including financial certification, to obtain and continue eligibility in the Pell Grant Program. The Department of Education's financial certification process includes evaluation of a school's financial responsibility, on the basis of audited annual financial statements submitted to the Department in accordance with its regulations. Between 1983 and 1987, Beth Rochel Seminary submitted unaudited financial statements of the Beth Rochel School for Girls to continue the seminary's eligibility to process and award Pell Grants. The Department of Education accepted these statements and, on their basis, certified the seminary as financially responsible to continue in the program.

Through our review of the institutions' financial statements for 1983 through 1988, the accountant's workpapers, and available records of the Beth Rochel School for Girls, we determined that the financial statements submitted to the Department did not disclose that the seminary (1) shared facilities with the girls school, (2) maintained no accounting records separate from the girls school, and (3) commingled its funds in the bank accounts of the girls school. The seminary also both did not explain a significant difference in the financial conditions illustrated in the 1987 and 1988 statements submitted to the Department (see table III.1) and claimed as expenses questionable costs normally not associated with an independent-study mentoring program. Despite these conditions and a 1988 financial statement that reported both a negative cash position and an over $80,000 liability to the Department itself, the Department determined the seminary to be financially responsible and continued its eligibility for the Pell Grant Program.

Table III.1: Comparison of Some Line Items From 1987 Girls High School Statement and 1988 Seminary Statement

	1987, girls school	1988, seminary
Total assets	$696,482	$351,072
Fixed assets	479,825	0
Revenue (tuition)	1,634,775	676,800
Expenses & expenditures	1,580,758	617,973

The accountant who prepared the 1988 statement rendered a qualified opinion because he was unable to determine the reason for the statement of change in financial position. Nevertheless, the Department did not question the changes and concluded that the seminary was in "healthy condition" and eligible to participate without condition. It approved the eligibility despite the fact that the seminary had a negative cash balance of $40,657 and still owed a $80,256 liability to the Department for prior misconduct. Subsequent to the approval, the seminary obtained approximately $3.2 million in Pell funds before it was terminated from the program in 1992.

Submission of Insupportable Financial Statement as Eligibility Criterion

On the basis of our review of the accountant's workpapers and his statements to us, we believe further disclosure should have been made on the financial statements. These disclosures should have included statements about (1) the commingling of cash between the seminary and the girls school, (2) the seminary's failure to maintain books, records, and bank accounts separate from those of the girls school, and (3) the accountant's own serious misgivings related to key elements used as the basis for allocating certain expenses between the Beth Rochel School for Girls and the Beth Rochel Seminary.

All the Pell funds received by the seminary were deposited in the seminary's single bank account and then immediately transferred to the girls school operating account, from which all disbursements were made. Although the accountant did not verify the opening cash balance figure on the 1988 statement and his qualified opinion was based in part on this, he failed to disclose how he arrived at the figure. A full disclosure would have revealed both that all the seminary's funds were commingled with those of the girls school and that the seminary retained no separate accounting records.

The 1988 statement reported that the seminary had paid over $115,000 for its rent, utilities, and maintenance. The statement did not disclose that the building in which the seminary was purportedly housed is owned by the Administrator of the girls

school and the seminary. According to the accountant, the seminary paid no actual rent; rather this was an allocation of the seminary's share of the rent. However, the allocation was based on a questionable representation made by the seminary concerning the amount of square footage that was used solely by the seminary in the high school building. The seminary represented that a 5,000-square-foot auditorium located within the high school was to be used "exclusively" by the seminary, an independent study program. The accountant stated that when he was given a tour of the facility, he questioned how an auditorium located within an elementary and high school would not be used by the elementary and high school students. He stated that he told the Administrator to provide him a statement in writing that the auditorium was used exclusively by the seminary. During the Department of Education program review, Department personnel were also given a tour of the seminary-used space within the high school, which did not include an auditorium.

We also have concerns about the legitimacy of other major expenses represented to the accountant and reported on the statement. Although the seminary began providing postsecondary instruction in 1973, a $75,000 expenditure was reportedly paid to the B'nai Arugath Habosom yeshiva for the "program and curriculum development" of the seminary's academic program. (The Department of Education fined B'nai Arugath Habosom $87,000 in 1993 for also using high school students to obtain Pell Grants.) Another large expenditure reported on the statement is $87,400 for "Scholarships and Stipends." However, our interviews with four purported students disclosed that they had never received the $500 stipend checks issued in their names and never attended the Beth Rochel program.

We asked the accountant why he failed to fully disclose the questioned items. He stated that he had telephoned the Department official who had requested the audit; informed him of the problems at the seminary; and as a result, intended to render a qualified opinion. According to the accountant, the official told him "just get me something." When we asked the Department official if such a conversation had taken place, he stated that he did not recall ever speaking to the accountant.

HISTORY OF TITLE IV PARTICIPATION WITH DEPARTMENT OF EDUCATION

Beth Rochel Seminary has a 14-history (1979-92) of difficulties in obtaining and maintaining its eligibility to participate in Title IV programs. The seminary has been certified seven times; and excluded (including its final termination) four times, all for noncompliance and fraudulent representations.

Table III.2: Beth Rochel Title IV Certification Occurrences

	Found eligible	Eligibility withheld/denied	Reinstated	Recertify
Date		Dec. 1981	Sept. 1983	
Date		Jan. 1984	Nov. 1984	
Date				Dec. 1986
Date				Jan. 1989
Date				Nov. 1991
Terminated	Sept. 1992			

Beth Rochel Seminary, a division of the Congregation Beth Rochel, began offering postsecondary education in 1973. In October 1979 the Department of Education[8] found the seminary eligible to participate in Title IV student assistance programs, including Pell Grants, using the 3IC method[9] of eligibility. However, in December 1979, the Department withdrew the seminary's eligibility because the seminary never actually met the 3IC standards.

Between the seminary's reinstatements in November 1980 and November 1984, the Department withdrew its eligibility twice: first for never meeting the 3IC standards and later for discrepancies found in its 3IC documentation. The Department had also issued a retroactive fine of $52,268 for the seminary's previous 3IC violations. In August 1984, it applied for and was reinstated in the Title IV programs. Although recertifying the seminary three times between 1986 and 1991, the Department terminated its participation in Title IV funding in 1992.

TERMINATION BY DEPARTMENT OF EDUCATION

On September 23, 1992, the Department terminated the school from participation in any Title IV Higher Education Act programs for falsely obtaining Pell Grants for ineligible high school students, maintaining false student records, failing to meet fiduciary

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[8]The Department's name was changed from the Department of Health, Education and Welfare after 1981.

[9]3IC was a method of obtaining eligibility for unaccredited institutions by demonstrating to the Department of Education that 3 accredited institutions would accept the unaccredited institution's credits on transfer.

standards (failure to pay a previous Department fine), and other program noncompliance. The Department also fined the yeshiva $270,000 as a result of this conduct. The yeshiva appealed the termination and fine to a Department Administrative Law Judge, who affirmed the Department's termination and fine.

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